ROTHMANS OF PALL MALL CANADA LIMITED

Annual Report
1975

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HIGHLIGHTS

	1975	1974
SALES	**$810,590,000**	$720,838,000
EARNINGS BEFORE EXTRAORDINARY ITEMS	**$ 15,436,000**	$ 8,856,000
DIVIDENDS ON PREFERRED SHARES	**$ 4,592,000**	$ 7,541,000
DIVIDENDS ON COMMON SHARES	**$ 1,910,000**	$ 802,000
WORKING CAPITAL	**$ 86,764,000**	$ 61,489,000
TOTAL ASSETS	**$403,065,000**	$457,143,000
LONG TERM DEBT	**$ 59,639,000**	$ 44,873,000
SHAREHOLDERS' EQUITY	**$ 87,757,000**	$150,452,000
CAPITAL EXPENDITURES	**$ 17,126,000**	$ 18,250,000
PER COMMON SHARE:		
EARNINGS BEFORE EXTRAORDINARY ITEMS	**$ 2.80**	$ 0.82
SHAREHOLDERS' EQUITY	**$ 7.42**	$ 23.11

Ce rapport peut être obtenu en français sur demande.

CONTENTS:

Head Office • 75 DUFFLAW ROAD, TORONTO, ONTARIO M6A 2W4

Auditors • PRICE WATERHOUSE & CO.

Bankers • BANK OF MONTREAL

Registrar & Transfer Agent • THE ROYAL TRUST COMPANY

Solicitors • SMITH, LYONS, TORRANCE, STEVENSON & MAYER

VALUATION DAY PRICES:

For Canadian capital gains tax purposes, the valuation day values of Rothmans of Pall Mall Canada Limited securities were as follows:

8% Debentures due January 3, 1988	$93.00
First Preferred Shares, Series A	$82.50
Second Preferred Shares	$19.88
Warrants	$ 3.50
Common Shares	$16.63

The Company is a member of the world-wide Rothmans Group which operates more than 100 plants in 26 countries and whose products are sold in more than 180 countries. Rothmans of Pall Mall Canada Limited and its subsidiary companies are engaged in the production and sale of tobacco products, beer and wine and in oil and gas operations.

The Company is Canada's second largest manufacturer and distributor of cigarettes, including such well-known brands as Rothmans King Size Filter, the Craven Family and Number 7. Fine cut tobacco and cigarette tubes are also produced and sold. Tobacco manufacturing operations are carried out at plants located in Toronto and Quebec City. The Company also sells cigarette rolling devices, imported pipe tobaccos, cigars and smokers' accessories. The Company has seventeen sales offices across Canada.

Carling O'Keefe Limited, a majority-owned (50.1%) subsidiary, operates thirteen breweries in Canada, five in the United States and one in the Republic of Ireland, producing such well-known brands as Carling Black Label, Carling Red Cap Ale, Heidelberg, Calgary Export Ale, Old Vienna, O'Keefe Ale, Tuborg and Carlsberg. A subsidiary company, Jordan Valley Wines Limited, produces wine at five Canadian plants and also distributes certain lines of imported wines and liquors. A wholly-owned subsidiary company, Star Oil & Gas Ltd., is engaged in oil and gas operations in Western Canada and Alaska.

PRINCIPAL SUBSIDIARY COMPANIES:

Rock City Tobacco Company Limited

Alfred Dunhill of London, Limited

Filtromat of Canada Limited

Carling O'Keefe Limited (50.1% owned):

CANADA
The Bennett Brewing Company, Limited
The Carling Breweries Limited
Doran's Northern Ontario Breweries Limited
O'Keefe Brewing Company Limited
Jordan Valley Wines Limited (91.9% owned)
Star Oil & Gas Ltd.

UNITED STATES
Carling Brewing Company Incorporated
Century Importers Inc.

REPUBLIC OF IRELAND
Beamish & Crawford Limited

Directors' Report

All-time record sales and earnings were achieved in tobacco operations during the year ended June 30, 1975. Earnings were up by 37.1 percent, while sales revenue showed a 14.4 percent gain over last year, as a result of higher unit cigarette sales and selling price increases during the year. Unit cigarette sales increased by 4.9 percent, compared to a total industry increase of 3 percent.

Consolidated sales for 1975 were $810,590,000, an increase of 12.5 percent over last year. Tobacco sales increased by $43,245,000 and Carling O'Keefe Limited sales increased by $46,507,000 (11.1 percent).

Excluding extraordinary items, consolidated earnings were $15,436,000 compared to $8,856,000 last year. This represents an increase of 74.3 percent over 1974 and is almost $2 million higher than the previous earnings record. After providing for Preferred share dividends, earnings per Common share increased to $2.80 (based on a weighted average of 3,918,580 shares) from $0.82 in 1974 (on 1,603,980 shares).

The significant increase in consolidated earnings was attributable to a combination of the record tobacco earnings and a reduced operating loss incurred by the Company's majority-owned subsidiary, Carling O'Keefe Limited. Excluding extraordinary items, the Carling O'Keefe loss was 17.3 cents per common share compared to 34.7 cents in 1974.

Consolidated working capital at June 30, 1975 amounted to $86,764,000, an increase of $25,275,000 during the year. This increase was primarily due to the issue of $20 million of debentures by the Company in February, 1975.

The Company acquired 50.1 percent of the common shares of Carling O'Keefe Limited in 1968 and 1969 at a total cost of $136,339,000. The excess of the cost of these shares over net asset values at dates of acquisitions amounted to $71,570,000. In view of the unsatisfactory results of operations in Carling O'Keefe, the directors of the Company have decided to write off this excess at June 30, 1975. The write-off has been reflected as an extraordinary charge in the consolidated statement of earnings.

In conjunction with this action, the directors have also approved a by-law reducing the Company's paid-up Common share capital by $71,570,000. Accordingly, the write-off of the excess cost has been segregated in the shareholders' equity section of the consolidated balance sheet to reflect the substance of the capital restructuring at its present transitional stage. The credit arising from the proposed reduction in capital will be utilized to offset this amount.

The by-law is subject to approval by shareholders at the annual and special general meeting and subsequent confirmation by supplementary letters patent. Rothmans of Canada Limited, the Company's majority shareholder, has confirmed that it will vote in favour of the by-law and the relevant government department has indicated that the application for supplementary letters patent will be acceptable.

In the opinion of directors and management of the Company, the unrecorded value of trademarks and other

intangible assets of the tobacco operations is equal to or greater than the write-off of the Carling O'Keefe excess cost.

Dividends paid during the year amounted to \$4,592,000 on Preferred shares (1974—\$7,541,000) and \$1,910,000 on Common shares (1974—\$802,000). The decrease in Preferred dividends and the increase in Common dividends was the result of conversions of Second and Third Preferred shares into Common shares during October and November, 1974.

The effects of continuing high levels of world-wide inflation were again felt in all areas of operations of the Company and its subsidiaries. Selling price increases in the past year partially offset these cost increases. Brewing operations will require additional price increases in order to achieve a reasonable level of earnings.

Although Canadian brewing operations showed encouraging trends in both sales and earnings in 1975, increasing losses in the United States continued to adversely affect results of Carling O'Keefe Limited. For some time, management of Carling O'Keefe has had under active review various alternative methods to restore profitability. One possibility is the acquisition of the brewing assets of National Brewing Co. by Carling Brewing Company Incorporated in the United States. At the time of writing this report, discussions were being held between Carling and National but negotiations were not complete. If the purchase is completed, Mr. J. C. Hoffberger, President of National Brewing, will become Chairman and Chief Executive Officer of the combined United States operation and all of the existing brands of both companies will continue to be sold.

The tobacco operations of the Company continued to show excellent growth in both sales and earnings. Our share of the Canadian cigarette market again increased and we are confident that this trend will continue.

In order to clarify lines of reporting and responsibility within the North American Group of Companies, each major operating subsidiary will now be represented on its parent company's Board of Directors by its Chairman. As a result, the Boards of Directors of the Company and Carling O'Keefe were restructured effective July 15, 1975 to eliminate other interlocking directorships. In line with this decision, George E. Creber, Q.C., has been appointed to fill the vacancy on the Board of this Company.

Most Rothmans Group companies have changed their fiscal year-end from June 30 to March 31. At the annual and special general meeting, shareholders will be asked to approve a by-law, which has been approved by the directors, to adopt a similar change effective March 31, 1976.

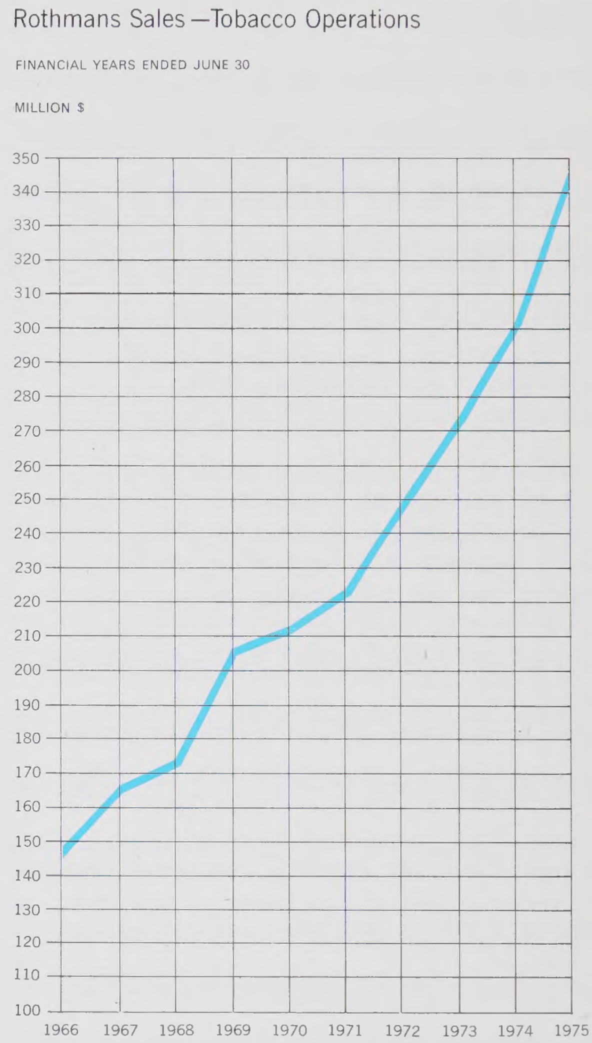
On behalf of the directors, I wish to express appreciation to all employees of the Company and its subsidiaries in Canada, the United States and Overseas. I also thank our shareholders for their loyal and continued support.

John H. Devlin

September 26, 1975 *Chairman of the Board*

Review of Tobacco Operations

New records for both sales and earnings were again achieved in tobacco operations during the year ended June 30, 1975. The Company's share of the Canadian cigarette market also saw further gains during the period under review.



Sales:

The significant gain in sales revenue was primarily due to higher unit cigarette sales and selling price increases obtained during the year. Sales revenue for the cigarette division amounted to $332,095,000 in 1975, an increase of 14.8 percent over last year. The Company's unit cigarette sales rose to 16,321 million from 15,561 million in 1974, an increase of 760 million or 4.9 percent. Cigarette selling price increases were instituted September 30, 1974 and April 16, 1975 to offset higher manufacturing costs and December 2, 1974 to recover additional federal excise duty and sales tax.

The increase in unit cigarette sales resulted primarily from higher volumes for Rothmans King Size Filter, the Craven Family and Number 7. Rothmans King Size, Canada's largest selling king size cigarette, achieved a sales growth of 4.5 percent during the year. The Craven Family, comprised of Craven "A", Craven King Size and Craven Menthol, showed an overall increase of 6.5 percent; Craven King Size was up by 11.2 percent and Craven Menthol by 7.8 percent. Number 7 maintained its steady growth pattern with a unit sales increase of 8.8 percent.

FINANCIAL YEAR ENDED JUNE 30	1975	1974	INCREASE
SALES	$344,134,000	$300,889,000	14.4%
EARNINGS			
Before income taxes	30,648,000	22,267,000	37.6%
After income taxes	17,328,000	12,637,000	37.1%

During June, the Company introduced Peter Stuyvesant 100's in a new flip top 25 pack—a first in both Canada and the world. Although distribution to date has been on a limited basis, consumer acceptance has been encouraging.

At the present time, the Company's active brands are as follows:

REGULAR	*KING SIZE*	*LUXURY LENGTH*
Filter:	*Filter:*	*Filter:*
Craven "A"	Rothmans	Peter Stuyvesant 100's
Sportsman	Number 7	
Black Cat	Craven King Size	
	Craven Menthol	
	Sportsman	
	Perilly's Private Blend	
Plain:	Peter Stuyvesant	
Sportsman	Richelieu	
Black Cat	Dunhill	

Industry cigarette sales increased during the year by 3.0 percent, to 58,385 million from 56,662 million in 1974. The Company's share of industry sales increased from 27.5 percent in 1974 to 28.0 percent in 1975. During the ten years ended June 30, 1975, the Company's unit cigarette sales have increased by 88.2 percent compared to an industry growth of 37.5 percent.

Sales revenue for the fine cut division (domestic tobacco, cigarette tubes and cigarette rolling devices) amounted to $8,346,000, a slight improvement over sales of $8,241,000 in 1974. Unit sales of fine cut and pipe tobacco were 1,725,000 pounds compared to 1,715,000 pounds in 1974, but sales revenue for these products showed a gain of 10.0 percent due to selling price increases effective December 2, 1974 (recovery of additional federal taxes) and April 16, 1975 (to offset increased manufacturing costs). Unit sales of cigarette tubes and cigarette rolling devices were lower in 1975 than in the previous year.

Total sales revenue of imported pipe tobacco, cigars and smokers' accessories amounted to $3,693,000, compared to $3,490,000 in 1974. Increased revenue was realized from selling price increases obtained during the year on most products and higher unit sales of cigars. Unit sales volumes for pipe tobacco and most smokers' accessories showed decreases from last year.

Earnings before Income Taxes:

On a comparative basis, the following table outlines the appropriation of a tobacco sales dollar:

	Financial Year Ended June 30 1975	1974
Excise and sales taxes	57.2¢	58.9¢
Raw materials and manufacturing expenses	23.9	23.6
Marketing and distribution expenses	6.3	6.5
Administrative and general expenses	2.0	2.0
Interest	1.7	1.6
Earnings before income taxes	8.9	7.4
Sales	100.0¢	100.0¢

(i) Excise and sales taxes:

This category of expense is comprised of federal excise duty, excise tax and sales tax. These taxes increased by $19,607,000 or 11.1 percent during 1975, compared to a sales value increase of 14.4 percent.

Excise duty was increased by 2¢ per pack of 20 cigarettes (2.5¢ per pack of 25's) by the federal budget of November 18, 1974.

Excise tax and sales tax rates remained unchanged during the year; however, because of selling price increases, the amount of sales tax per pack of cigarettes increased.

At the present time these taxes are as follows:

PER PACK OF KING SIZE CIGARETTES:	*20's*	*25's*
Excise duty	10.0¢	12.5¢
Excise tax	12.0	15.0
Sales tax	3.5	4.3
	25.5¢	31.8¢

In addition to the above federal taxes, all of the ten provinces and the two territories levy tobacco taxes. During the 1975 fiscal year, Prince Edward Island doubled its rate of tax per pack and Newfoundland effectively increased its tax per pack by an amendment to its Retail Sales Tax Act.

Provincial taxes on cigarettes are now as follows:

PER PACK OF:	*20's*	*25's*
British Columbia	6.4¢	8.0¢
Alberta	6.4¢	8.0¢
Saskatchewan	7.2¢	9.0¢
Manitoba	12.0¢	15.0¢
Ontario	9.2¢	11.5¢
Quebec	8.0¢	10.0¢
New Brunswick	8.0¢	10.0¢
Nova Scotia	8.0¢	10.0¢
Prince Edward Island	16.0¢	20.0¢
Newfoundland	27.0¢	33.0¢
Yukon Territory	8.0¢	10.0¢
Northwest Territories	6.4¢	8.0¢

Federal and provincial taxes now represent between 45 and 65 percent of the retail selling price.

(ii) Raw materials and manufacturing expenses:

Included in this category are leaf tobacco, wrapping materials, direct labour and manufacturing overheads. These costs rose by $11,258,000 or 15.9 percent over 1974, with all elements showing substantial increases. Per unit cost increases were somewhat offset by higher production volume.

Leaf tobacco is the most significant element of production cost. Tobacco costs charged against earnings in 1975 amounted to 98.0 cents per pound compared to 93.2 cents last year. The 1975 charge reflects primarily the usage of tobacco which was in inventory at June 30, 1974; purchases of leaf during the past fiscal year are reflected mainly in 1975 year-end inventories, as these costs are averaged with prior years' inventories in the latter part of the year when purchases are completed. Tobacco inventories at June 30, 1975 totalled 54.8 million pounds valued at an average cost of $1.15 per pound (1974—48.1 million pounds; $1.01 per pound).

The Ontario flue-cured leaf tobacco crop totalled 238 million pounds last year, compared to 233 million pounds in the previous year. The average price paid at the auctions increased significantly, rising from 79 cents in the previous year to 90 cents per pound last year. Rothmans continued its policy of paying above-average prices, in keeping with its slogan "the best tobacco money can buy". The Company's cost at the Ontario auctions averaged 92 cents per pound, compared to 81 cents in the previous year. The yield from the Ontario crop which will be harvested this fall is presently estimated at 200 million pounds.

Your Company also purchased leaf tobacco in the Province of Quebec and in the Maritimes. These purchases represented approximately 25 percent of the total available crop in these two areas.

For the second year in a row, wrapping material costs escalated dramatically. During this period, board and paper product prices have experienced the most significant percentage increase of all the major elements which comprise manufacturing costs.

Higher direct labour costs resulted from entering the second year of labour contracts at both plants and significant overtime production required to maintain desired inventory levels. The present two-year contracts expire on December 20, 1975 for Toronto and March 19, 1976 for Quebec.

(iii) Marketing and distribution expenses:

This category includes costs of selling, advertising, freight and warehousing. These expenses showed an increase of $1,984,000 or 10.1 percent during 1975. Higher selling and advertising expenses reflected increases in salaries and fringe benefits, media advertising costs and promotion activities, partially offset by reduced costs for point of sale material. Freight costs increased as a result of both higher volumes of shipments and freight rate increases. Warehousing costs were up as a result of increased salaries, wages and related fringe benefits and higher building operating costs.

(iv) Administrative and general expenses:

These expenses increased by $773,000 or 12.7 percent over 1974, with higher salary and fringe benefit costs being the most significant factor. Other expenses which showed substantial increases were royalties and wrapping

material write-offs. Partially offsetting these increases were higher profits realized on the disposal of property, plant and equipment and on the purchase of debentures for sinking fund purposes.

(v) Interest expense:

Interest expense on both long and short term debt amounted to $5,958,000 in 1975, up 25.9 percent over last year. This significant increase was the result of generally higher levels of borrowing during 1975 and higher average interest rates prevailing during the year. Although the prime bank rate eased from its high of $11\frac{1}{2}\%$ at the beginning of the year to 9% in the latter part of the year (compared to an increase from $7\frac{3}{4}\%$ to $11\frac{1}{2}\%$ during 1974), the weighted average rate for 1975 was approximately 1% higher than in 1974. In addition, the Company replaced $20 million of short term bank borrowings with the issue of 11% Series B Debentures in February, 1975.

Income Taxes:

Income taxes charged against 1975 earnings amounted to $13,320,000 or 43.5 percent of earnings before tax (1974—$9,630,000; 43.2 percent). The percentage increase reflects primarily the 10 percent federal surtax for the first ten months of the year (expired April 30, 1975).

The Company follows the tax allocation basis of accounting for income taxes. The major item giving rise to deferred income taxes is the excess of capital cost allowance claimable for income tax purposes over depreciation recorded in the accounts.

Capital Expenditures:

Expenditures on property, plant and equipment amounted to $6,026,000 in 1975, compared to $5,014,000 last year. Major expenditures were incurred for additional and replacement production equipment, land and a warehouse/office building in Calgary and the replacement of company vehicles. Depreciation expense for the year ended June 30, 1975 was $3,190,000 (1974—$2,701,000).

Series B Sinking Fund Debentures:

On February 20, 1975 the Company issued $20 million of 11% Sinking Fund Debentures, Series B, maturing February 15, 1995. The net proceeds of $19,480,000 were used to reduce bank indebtedness and unsecured notes payable incurred principally to finance inventories and accounts receivable. The debentures were issued under a Deed of Trust and Mortgage dated December 15, 1967, as supplemented by indentures dated December 15, 1972 and February 15, 1975. The mandatory sinking fund payment is $800,000 per annum; in addition, the Company has the non-cumulative right to an optional sinking fund payment of $200,000 per annum.

Community Service Programmes:

In keeping with your Company's philosophy of sharing its successes with Canadian consumers, both financial and technical support were provided to further the development of tennis, equestrian, sailing and curling programs throughout Canada. Through this assistance, not only has the calibre of competitions increased significantly, but the experience derived by the participants and the enjoyment provided to the many thousands of Canadians attending the events have done much to enhance your Company's position in the community.

Rothmans continued support of the Performing Arts made possible the publication of many theatre programmes. Proceeds derived from programme sales are retained by the various theatrical groups involved. "Art Deco 1925-1935", our 12th International Art Exhibition to tour this country, is presently being enjoyed throughout Canada.

Rothmans fleet of special events caravans are available free of charge to non-profit organizations and are in demand year round.

The Craven Foundation collection of antique and miniature automobiles is becoming well-known throughout Canada. These vehicles are constantly in demand for appearances in shopping plazas, at community fairs, in parades and at automobile shows. The Foundation Automobile Museum is open to the public 7 days a week at 760 Lawrence Avenue West in Toronto.

Review of Brewing Operations

Operating results of the Company's majority-owned subsidiary, Carling O'Keefe Limited, were still below satisfactory levels for the year ended June 30, 1975, with further operating losses incurred. However, the loss of 17.3 cents per Carling O'Keefe common share was significantly lower than the loss of 34.7 cents before extraordinary items in 1974. Extraordinary gains of 7.1 cents on the disposal of surplus brewing properties reduced the final 1974 loss to 27.6 cents.

The major factors affecting the improvement in 1975 operating results were a significant gain in earnings from Canadian brewing operations and a foreign exchange gain this year compared to a substantial loss in 1974. Partially offsetting these gains was a larger loss incurred in United States brewing operations.

Consolidated sales were $466,456,000 compared to $419,949,000 in 1974, an increase of 11.1 percent. Higher sales revenue was realized in all areas of Carling O'Keefe's operations.

Sales revenue from Canadian brewing operations was 13.0 percent higher than last year, increasing to $272,516,000 from $241,065,000 in 1974. The major factor was the full year's effect of selling price increases received in certain provinces. In addition, sales volume increased by 1.2 percent (4,330,000 barrels compared to 4,278,000 barrels in 1974). Earnings from Canadian brewing operations were $4,575,000 compared to $1,531,000 in 1974.

Sales revenue from United States brewing operations increased to $146,029,000 from $135,640,000 in 1974, an increase of 7.7 percent. Higher revenue from selling price increases was partially offset by a decrease of 4.3 percent in sales volume (3,421,000 barrels in 1975 compared to 3,574,000 barrels last year). The loss incurred on United States brewing operations amounted to $9,436,000, compared to $6,006,000 in 1974.

Irish brewing operations attained sales revenue of $17,314,000 in 1975, an increase of 2.7 percent from last year's sales of $16,851,000. Increased revenues from product mix and selling price adjustments were substantially offset by a decrease of 20.4 percent in beer sales volume (199,000 barrels compared to 250,000 barrels in 1974). Earnings decreased from $561,000 in 1974 to $246,000 this year.

Sales revenue from wine operations (Jordan Valley Wines Limited and subsidiary companies) increased by 11.8 percent, to $27,317,000 from $24,435,000 in 1974. Higher revenue from selling price increases and product mix was partially offset by a decrease of 5.1 percent in sales volume (from 4,951,000 gallons last year to 4,698,000 gallons in 1975). Carling O'Keefe's share (83.8 percent) of Jordan's earnings was $842,000 in 1975, compared to $682,000 last year.

Revenue from oil and gas operations (Star Oil & Gas Ltd.) increased to $3,280,000, up 67.5 percent from $1,958,000 in 1974. Earnings of $203,000 in 1975 compared to a loss of $319,000 in 1974.

Investment and other income amounted to $3,575,000 compared to $4,137,000 in 1974. As a result of the repatriation of overseas short term investments during the year, interest income earned in 1975 was significantly lower than last year. The decline in the market value of these investments was, however, substantially lower than in 1974, partially offsetting the decreased interest income. Royalty income received from sales of Carling Black Label under franchise agreements in the United Kingdom and southern Africa increased by $298,000 or 34.3 percent.

Foreign exchange transactions resulted in a net gain of $60,000 in 1975, compared to a loss of $2,329,000 last year. As a result of the weakening of the Canadian dollar compared to the United States dollar, the translation of the accounts of foreign subsidiaries resulted in a net gain in 1975, compared to a loss in 1974. Furthermore, the exchange loss on the overseas short term investments was significantly lower than last year.

For further information on brewing operations, reference should be made to the enclosed annual report of Carling O'Keefe Limited for the year ended June 30, 1975.

Financial Review

QUARTERLY SALES AND EARNINGS ANALYSIS ($000's)

	Consolidated Sales		Consolidated Earnings Before Extraordinary Items			
			Amount		Per Common Share	
	1975	1974	**1975**	1974	**1975**(1)	1974(2)
First Quarter	**$220,112**	$194,655	**$ 3,658**	$ 3,172	**$ 0.49**	$ 0.80
Second Quarter	**193,266**	184,058	**2,976**	2,341	**0.52**	0.28
Third Quarter	**165,075**	156,315	**1,567**	1,800	**0.17**	(0.06)
Fourth Quarter	**232,137**	185,810	**7,235**	1,543	**1.62**	(0.20)
	$810,590	$720,838	**$ 15,436**	$ 8,856	**$ 2.80**	$ 0.82

(1) based on weighted average of 3,918,580 shares.

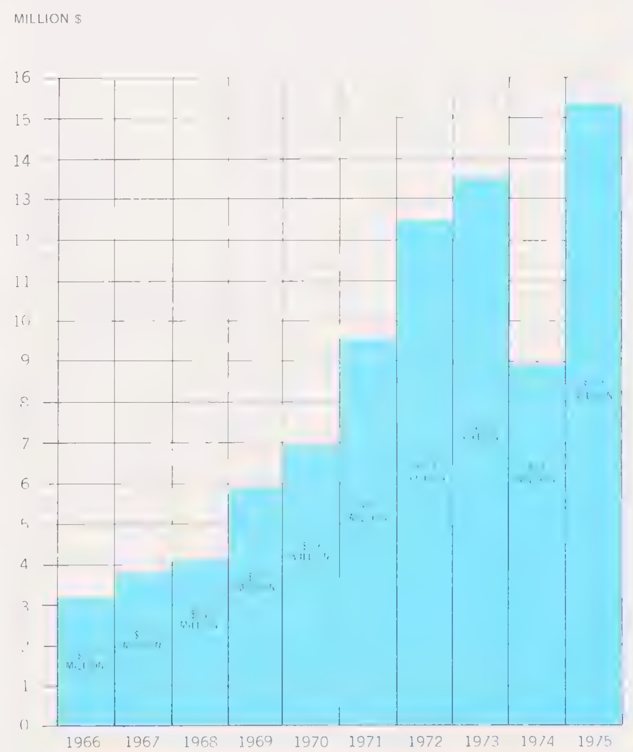
(2) based on 1,603,980 shares.

ANALYSIS OF SALES ($000's)

	1975	1974
TOBACCO		
Cigarettes	**$332,095**	$289,158
Domestic tobacco, cigarette tubes, cigarette rolling devices	**8,346**	8,241
Imported tobacco, cigars, smokers' accessories	**3,693**	3,490
	$344,134	$300,889
BREWING		
Beer—		
Canada	**$272,516**	$241,065
U.S.A.	**146,029**	135,640
Ireland	**17,314**	16,851
	435,859	393,556
Wine	**27,317**	24,435
Oil and gas	**3,280**	1,958
	$466,456	$419,949
	$810,590	$720,838

Consolidated Earnings
Before Extraordinary Items

FINANCIAL YEARS ENDED JUNE 30



Consolidated Statement of Earnings

(in thousands of dollars)

	Year Ended June 30					
	Tobacco		Brewing		Total	
	1975	1974	1975	1974	1975	1974
Income:						
Sales	**$344,134**	$300,889	**$466,456**	$419,949	**$810,590**	$720,838
Excise and sales taxes	**196,826**	177,219	**149,419**	145,236	**346,245**	322,455
	147,308	123,670	**317,037**	274,713	**464,345**	398,383
Investment and other income	—	—	**3,575**	4,137	**3,575**	4,137
Foreign exchange gain (loss)	—	—	**60**	(2,329)	**60**	(2,329)
	147,308	123,670	**320,672**	276,521	**467,980**	400,191
Costs (Notes 12 and 13):						
Raw materials and manufacturing expenses	**82,149**	70,891	**210,962**	180,704	**293,111**	251,595
Marketing and distribution expenses	**21,645**	19,661	**88,216**	77,523	**109,861**	97,184
Administrative and general expenses	**6,841**	6,068	**17,217**	19,127	**24,058**	25,195
Interest and expense on long term debt	**1,728**	988	**1,694**	1,814	**3,422**	2,802
Other interest	**4,297**	3,795	**1,809**	1,899	**6,106**	5,694
	116,660	101,403	**319,898**	281,067	**436,558**	382,470
	30,648	22,267	**774**	(4,546)	**31,422**	17,721
Income taxes (Note 14):						
Current	**12,117**	8,431	**1,096**	428	**13,213**	8,859
Deferred	**1,203**	1,199	**1,143**	280	**2,346**	1,479
	13,320	9,630	**2,239**	708	**15,559**	10,338
	17,328	12,637	**(1,465)**	(5,254)	**15,863**	7,383
Minority interest (Note 9)	—	—	**(427)**	1,473	**(427)**	1,473
Earnings before extraordinary items	**$ 17,328**	$ 12,637	**$ (1,892)**	$ (3,781)	**15,436**	8,856
Extraordinary items:						
Excess cost of Carling O'Keefe shares written off (Notes 2 and 10)					**(71,570)**	—
Gain on disposal of surplus brewing properties, less minority interest of $769					—	772
Earnings for the year (loss after extraordinary item)					**$(56,134)**	$ 9,628
Earnings (loss) per Common share (Note 15):						
Before extraordinary items					**$ 2.80**	$ 0.82
After extraordinary items					**$ (15.46)**	$ 1.30

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year Ended June 30 1975	1974
Balance at beginning of year	**$ 21,259**	$ 19,859
Earnings for the year (loss after extraordinary item)	**(56,134)**	9,628
Transfer of excess cost of Carling O'Keefe shares written off to be applied against pending reduction in capital (Notes 2 and 10)	**71,570**	—
Excess of par value over cost of First Preferred shares purchased for cancellation (Note 10)	**69**	64
Excess of par value over cost of preference shares purchased for cancellation by Carling O'Keefe Limited, less minority interest	**75**	51
	36,839	29,602
Dividends paid:		
Preferred shares—		
First Preferred shares, Series A ($6.85 per share)	**1,173**	1,186
Second Preferred shares ($1.32½ per share)	**2,773**	3,771
Third Preferred shares (per share 1975—$0.33⅛; 1974—$1.32½)	**646**	2,584
	4,592	7,541
Common shares ($0.50 per share)	**1,910**	802
	6,502	8,343
Balance at end of year	**$ 30,337**	$ 21,259

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year Ended June 30	
	1975	**1974**
Working capital was increased by:		
Earnings before extraordinary items	**$ 15,436**	$ 8,856
Depreciation	**13,573**	12,665
Minority interest in earnings before extraordinary items	**427**	(1,473)
Other items not requiring working capital	**1,792**	403
Funds from operations	**31,228**	20,451
Proceeds on disposal of surplus brewing properties	**—**	5,037
Issue of long term debt (Note 8)	**20,000**	—
Proceeds on disposal of—		
Property, plant and equipment	**1,185**	1,645
Investments and other assets	**3,881**	945
	56,294	28,078
Working capital was decreased by:		
Property, plant and equipment additions	**17,126**	18,250
Retirement of long term debt	**4,358**	4,139
Dividends on Preferred shares	**4,592**	7,541
Dividends on Common shares	**1,910**	802
Dividends paid by subsidiary companies to minority shareholders	**2,221**	2,258
Purchase of First Preferred shares	**134**	463
Discount and expense on long term debt	**520**	—
Cash purchase of shares of subsidiary companies	**—**	194
Other	**158**	182
	31,019	33,829
Increase (decrease) in working capital	**25,275**	(5,751)
Working capital at beginning of year	**61,489**	67,240
Working capital at end of year	**$ 86,764**	$ 61,489

Consolidated Balance Sheet

(in thousands of dollars)

	June 30 1975	June 30 1974
ASSETS		
Current assets:		
Cash	**$ 6,474**	$ 3,261
Short term investments, at the lower of cost and market	**2,347**	11,907
Accounts receivable	**55,867**	47,189
Recoverable income taxes	**888**	879
Inventories (Note 4)	**147,280**	131,058
Prepaid expenses	**4,941**	4,736
Total current assets	**217,797**	199,030
Property, plant and equipment, at cost (Note 5)	**308,530**	295,847
Less: Accumulated depreciation	**152,816**	141,805
	155,714	154,042
Investments and other assets (Note 6)	**17,652**	20,499
Cost of shares of subsidiaries in excess of net asset values at acquisition (Note 2)	**11,902**	83,572
	$403,065	$457,143
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 7)	**$ 37,047**	$ 62,468
Notes payable (Note 7)	**19,115**	15,129
Accounts payable and accrued liabilities	**45,466**	37,693
Income taxes	**6,723**	775
Excise, sales and other taxes	**22,148**	20,939
Dividends payable to minority interest	**534**	537
Total current liabilities	**131,033**	137,541
Long term debt (Note 8)	**59,639**	44,873
Total liabilities	**190,672**	182,414
DEFERRED INCOME TAXES	**20,200**	17,863
MINORITY INTEREST IN SUBSIDIARY COMPANIES (Note 9)	**104,436**	106,414
SHAREHOLDERS' EQUITY		
Capital stock (Note 10):		
Preferred shares	**53,830**	113,113
Common shares	**75,160**	16,080
	128,990	129,193
Excess cost of Carling O'Keefe shares written off (Notes 2 and 10)	**(71,570)**	—
	57,420	129,193
Retained earnings (Note 11)	**30,337**	21,259
Total shareholders' equity	**87,757**	150,452
	$403,065	$457,143

Approved by the board:

John H. Devlin, *Director*
Robert H. Hawkes, *Director*

Notes to Consolidated Financial Statements

JUNE 30, 1975 AND 1974

1. Summary of significant accounting policies:

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Purchase accounting has been followed for all acquisitions and the results of operations of subsidiaries are included from effective dates of acquisition. In these statements, all references to "brewing" relate to all activities of the Company's majority-owned (50.1%) subsidiary, Carling O'Keefe Limited, which include the production and sale of beer and wine, oil and gas operations and income from investments.

The excess of the cost of shares of certain subsidiaries over the book value of underlying net tangible assets at dates of acquisition is carried at cost.

FOREIGN EXCHANGE:

Foreign currency accounts are translated to Canadian dollars as follows: current accounts at exchange rates in effect at June 30; other balance sheet accounts and depreciation expense at historical rates; income and other costs at average rates for the year. The resulting exchange gains or losses are included in the consolidated statement of earnings.

INVENTORIES:

Except for containers, inventories are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

PROPERTY, PLANT AND EQUIPMENT:

Depreciation is recorded generally on the straight-line basis over the estimated service lives of the assets.

The costs of acquiring interests in developed and undeveloped oil and gas properties and the development costs of productive wells are capitalized. Producing property costs are amortized using the unit of production method over the estimated recoverable oil and gas reserves. Lease rentals, other carrying costs and dry hole costs are charged to expense as incurred. The costs of properties which are abandoned are written off.

INVESTMENTS AND OTHER ASSETS:

Investments and other assets are recorded at cost or amortized cost except for those held for resale, which are recorded at estimated realizable value if less than cost or amortized cost.

PENSIONS:

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains and losses are written off over periods approximating the remaining service lives of the employees affected.

INCOME TAXES:

Income taxes are accounted for on the tax allocation basis for all timing differences between accounting and taxable income.

MARKETING:

Marketing costs, including those related to the introduction of new brands, are charged to operations as incurred, except for certain promotional items which are charged to operations as used.

EARNINGS PER COMMON SHARE:

The calculation of earnings per share figures shown on the consolidated statement of earnings is based on the weighted average number of Common shares outstanding during the year. Dividends earned on the Preferred shares are deducted from consolidated earnings for purposes of this calculation.

2. Cost of shares of subsidiaries in excess of net asset values at acquisition:

The excess arises from the following acquisitions:

	1975	1974
BY THE COMPANY:		
Carling O'Keefe Limited	$ —	$ 71,570,000
Alfred Dunhill of London, Limited	—	100,000

	1975	1974
By Carling O'Keefe Limited:		
Jordan Valley Wines Limited	$ 8,637,000	$ 8,637,000
Ste. Michelle Wines Limited (formerly Growers' Wine Company Limited)	2,176,000	2,176,000
Doran's Northern Ontario Breweries and other	1,089,000	1,089,000
	$ 11,902,000	$ 83,572,000

The excess of $71,570,000 relating to Carling O'Keefe arose on the purchase of 50.1% of the common shares of that company in 1968 and 1969 at a total cost of $136,339,000. In view of unsatisfactory results of operations in Carling O'Keefe, the directors have decided to write off this amount at June 30, 1975. In conjunction with this action, the directors have also approved a by-law reducing the Company's Common share capital by the same amount. Additional information with respect to the proposed reduction in Common share capital is included in Note 10.

3. United States brewing operations:

During recent years Carling Brewing Company Incorporated has experienced declining sales volume. This, together with inflationary costs and lack of adequate price increases, has contributed to increasing losses. Management has under active review various alternative methods to restore profitability. Certain of these methods could result in significant adjustments to the present carrying values of the related assets and liabilities and consequent charges to operations. The amount of such adjustments, if any, cannot be estimated at this time. The consolidated balance sheet includes assets of $60,785,000 and liabilities of $14,604,000 applicable to Carling Brewing Company Incorporated.

4. Inventories:

	1975	1974
Tobacco:		
Leaf tobacco	$ 62,803,000	$ 48,651,000
Finished stock	23,371,000	20,643,000
Packaging material and other	4,583,000	5,438,000
	90,757,000	74,732,000
Brewing:		
Beverage products, finished and in process	29,955,000	32,984,000
Materials and supplies	14,840,000	13,394,000
Containers	11,728,000	9,948,000
	56,523,000	56,326,000
	$147,280,000	$131,058,000

5. Property, plant and equipment:

	1975		1974	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Tobacco:				
Land	$ 2,243,000	$ —	$ 2,208,000	$ —
Buildings	5,312,000	2,237,000	4,685,000	2,120,000
Machinery, furniture and fixtures	32,108,000	17,879,000	28,694,000	16,691,000
Motor vehicles	4,074,000	1,807,000	3,735,000	1,462,000
Leasehold improvements	5,157,000	2,671,000	4,743,000	2,081,000
	48,894,000	24,594,000	44,065,000	22,354,000
Brewing:				
Land	6,431,000	—	6,681,000	—
Buildings	82,007,000	29,353,000	79,738,000	27,543,000
Machinery, furniture and fixtures	140,361,000	89,794,000	136,132,000	84,078,000
Motor vehicles	13,392,000	6,115,000	11,765,000	5,661,000
Oil and gas properties	15,322,000	2,141,000	15,480,000	1,507,000
Leasehold improvements	2,123,000	819,000	1,986,000	662,000
	259,636,000	128,222,000	251,782,000	119,451,000
	$308,530,000	$152,816,000	$295,847,000	$141,805,000

6. Investments and other assets:

	1975	1974
Sundry properties	$ 7,804,000	$ 2,250,000
Mortgages and long term receivables	5,332,000	14,614,000
Deferred charges, investment in associated companies and other	4,516,000	3,635,000
	$ 17,652,000	$ 20,499,000

A first mortgage for $7,000,000 maturing December 15, 1977 was taken back by Carling O'Keefe in 1973 on sale of surplus land. No interest was received on this mortgage subsequent to December 15, 1973 and the mortgage was foreclosed on April 24, 1975. The foreclosed property is recorded at the value of the first mortgage. Expenses related to the foreclosure have been written off.

7. Bank indebtedness and notes payable:

	1975	1974
Bank indebtedness:		
Tobacco	$ 27,102,000	$ 48,134,000
Brewing	9,945,000	14,334,000
	37,047,000	62,468,000
Notes payable:		
Tobacco	14,115,000	11,804,000
Brewing	5,000,000	3,325,000
	19,115,000	15,129,000
	$ 56,162,000	$ 77,597,000

Bank indebtedness arising from tobacco operations is secured by the related accounts receivable and inventories.

8. Long term debt:

Long term debt consists of the following Sinking Fund Debentures:

	1975	1974
Rothmans of Pall Mall Canada Limited:		
Series A 8% due January 3, 1988	$ 10,506,000	$ 11,453,000
Series B 11% due February 15, 1995	19,900,000	—
	30,406,000	11,453,000
Carling O'Keefe Limited:		
Series A 4¾% due January 15, 1979	1,954,000	2,154,000
Series B 4¼% due January 15, 1981	3,586,000	4,703,000
Series C 5% due January 15, 1983	4,093,000	4,640,000
Series D 5½% due April 1, 1986	7,760,000	8,342,000
Series E 5½% due April 1, 1989	12,949,000	13,984,000
	30,342,000	33,823,000
	60,748,000	45,276,000
Less: Amount included in current liabilities	1,109,000	403,000
	$ 59,639,000	$ 44,873,000

The remaining sinking fund requirements for the years 1977 through 1980 are as follows: 1977—$4,589,000; 1978—$5,400,000; 1979—$5,400,000; 1980—$4,800,000.

The Rothmans' debentures and the Carling O'Keefe Series C, D and E debentures are payable in Canadian funds. The Carling O'Keefe Series A and B debentures are payable in either Canadian or U.S. funds at par, at the option of the holder. The Rothmans' debentures are secured by a floating charge on the Company's assets in the Provinces of Ontario and Quebec.

The Rothmans' Series B debentures were issued on February 20, 1975 under a Deed of Trust and Mortgage dated December 15, 1967, as supplemented by indentures dated December 15, 1972 and February 15, 1975.

9. Minority interest in subsidiary companies:

The interest of minority shareholders in consolidated earnings or losses, before extraordinary items, was as follows:

	1975	1974
Carling O'Keefe Limited:		
Preference shares	$ 2,142,000	$ 2,153,000
Common shares	(1,883,000)	(3,763,000)
	259,000	(1,610,000)
Jordan Valley Wines Limited:		
Common shares	168,000	137,000
	$ 427,000	$ (1,473,000)

The minority shareholders' interest in the capital stock and retained earnings of subsidiary companies is as follows:

	1975	1974
Carling O'Keefe Limited:		
Preference shares	$ 43,974,000	$ 44,224,000
Common shares	57,068,000	58,877,000
	101,042,000	103,101,000
Jordan Valley Wines Limited:		
Common shares	3,394,000	3,313,000
	$104,436,000	$106,414,000

10. Capital stock:

Authorized—

500,000 First Preferred shares of the par value of $100 each, issuable in series
3,825,000 Second Preferred shares of the par value of $20 each
2,025,000 Third Preferred shares of the par value of $20 each
7,950,000 Common shares without nominal or par value

Issued—	1975	1974
6.85% Cumulative Redeemable First Preferred shares, Series A— 1975: 169,889 shares; 1974: 171,924 shares	$ 16,989,000	$ 17,192,000
$6\frac{5}{8}\%$ Convertible Cumulative Redeemable Second Preferred shares— 1975: 1,842,062 shares; 1974: 2,846,050 shares	36,841,000	56,921,000
$6\frac{5}{8}\%$ Convertible Cumulative Redeemable Third Preferred shares— 1974: 1,950,000 shares	—	39,000,000
	53,830,000	113,113,000
Common shares— 1975: 4,557,928 shares; 1974: 1,603,980 shares	75,160,000	16,080,000
	$128,990,000	$129,193,000

Conversions and purchases:

During the year ended June 30, 1975, 2,035 First Preferred shares with a total par value of $203,000 were purchased for cancellation at a cost of $134,000, 1,003,988 Second Preferred shares were converted into 1,003,948 Common shares, and all of the 1,950,000 Third Preferred shares were converted into an equal number of Common shares.

During the 1974 fiscal year, 5,275 First Preferred shares were purchased for cancellation.

Redemption and conversion privileges:

The Series A First Preferred shares are not redeemable before January 27, 1979, but are redeemable on or after that date at the option of the Company at a premium of $3 per share if redeemed before January 27, 1984, of $2 per share if redeemed before January 27, 1989, and of $1 per share if redeemed on or after January 27, 1989. The Company is required to purchase 5,000 of these shares in each calendar year.

The Second Preferred shares are not redeemable before November 1, 1979, but are redeemable on or after that date at the option of the Company at par. These shares are convertible on the basis of 1 Common share for each $1\frac{1}{4}$ Preferred share converted on or before October 31, 1979 (prior to October 31, 1974, these shares were convertible on the basis of 1 Common share for each Preferred share converted). After October 31, 1979, the Second Preferred shares will not be convertible into Common shares of the Company.

The Series A Debentures and the Series A Preferred shares were issued with warrants to purchase Common shares of the Company. The 349,970 warrants outstanding are presently exercisable at prices from $22.63 to $23.21 per Common share, depending on conversions of Second Preferred shares and date of exercise. After January 3, 1978, the warrants expire.

Of the authorized and unissued Common shares, 1,823,620 shares are reserved for the exercise of warrants outstanding and the conversion of Second Preferred shares.

Ownership:

As a result of conversions of Second and Third Preferred shares, Rothmans of Canada Limited presently owns 83.4% of the Company's issued Common shares as well as 14.6% of the issued Series A First Preferred shares. Rothmans of Canada has reconfirmed its intention to reduce its Common shareholdings to 50% at some future date.

Proposed by-law:

Subsequent to June 30, 1975, the directors of the Company have approved a by-law providing for:

1. a reduction of $71,570,000 in paid-up Common share capital;
2. changes in authorized share capital by the cancellation of 30,111 Series A First Preferred shares previously purchased for cancellation, 1,007,938 Second Preferred shares and 1,950,000 Third Preferred shares previously converted into Common shares, and 75,000 Third Preferred shares authorized but not issued;
3. the restoration to unappropriated retained earnings of the $3,011,000 capital surplus arising on the purchase for cancellation of 30,111 Series A First Preferred shares.

This by-law is subject to approval by the shareholders at the annual and special general meeting and subsequent confirmation by the issue of supplementary letters patent.

The proposed reduction in Common share capital is being made in conjunction with the decision of the directors of the Company to write off the $71,570,000 excess cost of shares of Carling O'Keefe over net asset values at dates of acquisition. The write-off has been reflected as an extraordinary charge in the consolidated statement of earnings and segregated in the shareholders' equity section of the balance sheet. The proposed reduction in capital will be recorded in this account and accordingly the financial statement treatment of the excess cost write-off reflects the substance of the capital restructuring at its present transitional stage. Rothmans of Canada Limited has confirmed that it will vote in favour of the by-law and the relevant government department has indicated that the application for supplementary letters patent will be acceptable.

After giving effect to the by-law, the authorized capital stock of the Company would be as follows:

469,889 First Preferred shares of the par value of $100 each, issuable in series
2,817,062 Second Preferred shares of the par value of $20 each
7,950,000 Common shares without nominal or par value

11. Retained earnings:

Under Section 62 of the Canada Corporations Act, $3,011,000 of retained earnings is designated as capital surplus on the purchase for cancellation of 30,111 First Preferred shares. The proposed by-law (Note 10) will restore this amount to unappropriated retained earnings.

Under the most restrictive provisions of the covenants relating to the Debentures and the Preferred shares, the Company cannot declare dividends on Common shares unless, after providing for them, consolidated retained earnings will be not less than $6,000,000 and all dividends on the Preferred shares have been declared and either paid or provided for.

12. Remuneration of directors and officers:

The aggregate direct remuneration of the eleven directors (1974—thirteen directors) and eleven officers (1974—twelve officers), two of whom are also directors, was as follows:

	1975		1974	
	As directors	As officers	As directors	As officers
By the Company	(11) $38,000	(11) $678,000	(13) $39,000	(12) $511,000
By Carling O'Keefe	(4) 18,000	(2) 268,000	(4) 18,000	(3) 259,000

Four directors (1974—four directors) of the Company were paid as directors of Carling O'Keefe, and one director and one officer (1974—one director and two officers) were paid as officers thereof.

13. Pensions:

The Company and its subsidiaries maintain a number of pension plans covering substantially all employees. The charge against earnings for pensions was $5,085,000 for the year ended June 30, 1975 (1974—$4,586,000), including $3,962,000 (1974—$3,737,000) for employees in brewing operations.

The Company's policy is to fund with independent trustees pension costs charged to operations. Unfunded prior service costs for brewing operations are estimated at $8,300,000 of which $3,000,000 relates to vested benefits, based on actuarial valuations received during the year ended June 30, 1975.

14. Income Taxes:

Credit has not been taken for losses of the major United States brewing subsidiary which may be applied only against future taxable income, other than credits related to reversal of deferred income taxes. At June 30, 1975, accumulated losses of approximately $15,000,000 are available to be applied against future taxable income, of which $3,500,000 can be carried forward to 1978, $2,500,000 to 1979 and $9,000,000 to 1980.

No income taxes are payable by the Irish brewing subsidiary as a result of the carry-forward of losses incurred in prior years.

15. Earnings per Common share:

During the year ended June 30, 1975, a total of 2,953,988 Second and Third Preferred shares were converted into 2,953,948 Common shares. The 1975 earnings per Common share figures have been calculated using the weighted average number of shares outstanding during the year (3,918,580) after giving effect to these conversions as at the termination date (September 17, 1974) of their Preferred dividend obligation.

If the above shares had been converted as at July 1, 1974, earnings per Common share for the year before the extraordinary charge would have been $2.59 (after the extraordinary charge, a loss of $13.11).

The 1974 earnings per Common share figures were calculated on the 1,603,980 shares which were outstanding during the year ended June 30, 1974.

Assuming exercise of the outstanding warrants and conversion of all Second and Third Preferred shares as at July 1, 1974, earnings per Common share on a fully diluted basis before the extraordinary charge would have been $2.31 (after the extraordinary charge, a loss of $8.91).

16. Commitments and contingent liabilities:

Rentals payable under lease agreements expiring more than three years after June 30, 1975 approximate $1,771,000 annually.

Under a long term agreement with United Breweries Limited of Copenhagen, Denmark dated March 17, 1972 Carling O'Keefe obtained access to the brewing research and technical knowledge of United Breweries together with the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trademarks in Canada, the United States and the Republic of Ireland. Royalties are payable based on total sales of all brewery products at rates varying with the volumes and selling prices of the products. The agreement is cancellable on twenty years' notice or earlier if certain specified conditions are not fulfilled.

Carling O'Keefe is committed to acquire at an undetermined future date the minority interest (16.2%) in the shares of Jordan Valley Wines Limited for an amount at least equal to $4,794,000. It is anticipated that one-half of the minority interest will be purchased in the near future at a cost of $2,397,000.

To ensure an adequate supply of Ontario flue-cured tobacco, the Company, together with the other major Canadian cigarette manufacturers, has agreed to guarantee a minimum average price for the 1975 crop to The Ontario Flue-Cured Tobacco Growers' Marketing Board.

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

Box 51 Toronto-Dominion Centre
Toronto, Ont. M5K 1G1
(416) 863-1133 Telex 02-2246

August 15, 1975

AUDITORS' REPORT

To the Shareholders of
Rothmans of Pall Mall Canada Limited:

We have examined the consolidated statements of earnings, retained earnings and changes in financial position of Rothmans of Pall Mall Canada Limited and its subsidiary companies for the year ended June 30, 1975 and the consolidated balance sheet as at that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As discussed in Note 3 to the financial statements, management has under active review various alternative methods of restoring profitability to the operations of the major United States brewing subsidiary. Certain of these methods could result in significant adjustments to the present carrying values of the related assets and liabilities and consequent charges to operations. The amount of such adjustments, if any, cannot be estimated at this time.

In our opinion, subject to the adjustments, if any, that might be required on resolution of the matter referred to in the preceding paragraph, these consolidated financial statements present fairly the results of operations and the changes in financial position of the companies for the year ended June 30, 1975 and their financial position as at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chartered Accountants

Ten-Year Financial Review—Financial Years Ended June 30:

Operating Results (in thousands of dollars):	**1975**	*1974*	*1973*	*1972*
Sales				
Tobacco	**$344,134**	$300,889	$271,703	$248,928
Brewing	**466,456**	419,949	412,603	404,779
	810,590	720,838	684,306	653,707
Excise and sales taxes	**346,245**	322,455	311,600	300,431
	464,345	398,383	372,706	353,276
Earnings				
Earnings (loss) before income taxes—				
Tobacco	**30,648**	22,267	21,207	18,141
Brewing	**774**	(4,546)	8,774	16,017
	31,422	17,721	29,981	34,158
Income taxes	**(15,559)**	(10,338)	(12,206)	(16,269)
Minority interest	**(427)**	1,473	(4,274)	(5,393)
Earnings before extraordinary items	**15,436**	8,856	13,501	12,496
Extraordinary items	**(71,570)**	772	1,902	(1,005)
Earnings (loss)	**(56,134)**	9,628	15,403	11,491
Depreciation	**13,573**	12,665	11,576	11,315
Interest expense	**9,461**	8,446	6,433	5,578
Dividends paid—				
Preferred	**4,592**	7,541	7,608	7,644
Common	**1,910**	802	—	—
Financial Position (in thousands of dollars):				
Working capital	**$ 86,764**	$ 61,489	$ 67,240	$ 77,142
Property, plant and equipment—net	**155,714**	154,042	156,135	144,359
Investments and other assets	**17,652**	20,499	18,683	16,362
Cost of shares of subsidiaries in excess of net asset values at acquisition	**11,902**	83,572	83,347	80,481
Total assets	**403,065**	457,143	452,123	429,785
Bank indebtedness and notes payable	**56,162**	77,597	70,433	57,770
Long term debt	**59,639**	44,873	49,707	53,772
Minority interest in subsidiaries	**104,436**	106,414	109,549	106,075
Shareholders' equity	**87,757**	150,452	149,580	142,468
Per Common Share:				
Earnings—before extraordinary items	**$ 2.80**	$ 0.82	$ 3.67	$ 3.03
—after extraordinary items	**(15.46)**	1.30	4.86	2.40
Dividends paid	**0.50**	0.50	—	—
Shareholders' equity	**7.42**	23.11	22.24	17.31
Ratios and Statistics:				
Working capital ratio	**1.66**	1.45	1.53	1.69
Capital expenditures (in thousands of dollars)	**$ 17,126**	$ 18,250	$ 20,945	$ 22,287
Number of common shares outstanding (in thousands)	**4,558**	1,604	1,604	1,600

NOTE: Results of Carling O'Keefe Limited have been consolidated since November 1, 1969, the effective date of acquisition of a 50.1% interest in that company; accordingly, the 1970 operating results include brewing for an eight-month period only.

1971	*1970*	*1969*	*1968*	*1967*	*1966*
	(Note)				
$223,840	$211,981	$205,871	$173,640	$166,014	$147,076
396,210	249,726	—	—	—	—
620,050	461,707	205,871	173,640	166,014	147,076
283,633	223,558	131,125	109,860	105,609	95,791
336,417	238,149	74,746	63,780	60,405	51,285
14,107	10,195	11,930	8,475	7,712	6,590
17,428	11,557	—	—	—	—
31,535	21,752	11,930	8,475	7,712	6,590
(16,534)	(11,232)	(6,074)	(4,405)	(3,949)	(3,424)
(5,355)	(3,597)	—	—	—	—
9,646	6,923	5,856	4,070	3,763	3,166
(1,279)	141	—	—	—	—
8,367	7,064	5,856	4,070	3,763	3,166
9,929	6,564	1,832	1,634	1,504	1,376
6,105	5,342	3,322	1,911	1,413	1,145
7,679	5,613	526	—	—	—
—	1,200	1,600	325	—	—
$ 92,340	$ 52,785	$ 18,739	$ 15,971	$ 12,271	$ 9,702
119,232	119,112	9,796	9,991	8,061	7,555
34,263	80,599	32,269	12,673	3,694	3,496
71,885	71,570	—	—	—	—
410,159	420,835	104,591	79,563	69,220	54,795
33,879	40,869	25,938	28,809	32,699	25,281
58,669	63,080	14,620	15,000	—	—
106,070	108,632	—	—	—	—
139,131	139,019	45,353	22,450	22,786	19,923
$ 1.23	$ 0.67	$ 3.30	$ 2.54	$ 2.89	$ 2.44
0.43	0.76	3.30	2.54	2.89	2.44
—	0.75	1.00	0.25	—	—
14.81	14.21	15.81	14.03	17.53	15.33
2.00	1.55	1.43	1.39	1.27	1.28
$ 16,276	$ 15,990	$ 1,637	$ 3,564	$ 2,010	$ 2,142
1,600	1,600	1,600	1,600	1,300	1,300

Directors

JOEL W. ALDRED, D.F.C. (1), (2)	President Joel W. Aldred Limited Toronto, Ontario
GEORGE E. CREBER, Q.C.	Vice President and General Counsel Canadian Arctic Gas Study Limited Toronto, Ontario
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ROBERT H. HAWKES, Q.C. (1)	President and Chief Executive Officer Rothmans of Pall Mall Canada Limited Toronto, Ontario
MURRAY B. KOFFLER (2)	Chairman of the Board and Chief Executive Officer Koffler Stores Limited Toronto, Ontario
JOHN C. LOCKWOOD	Chairman of the Board Carling O'Keefe Limited Toronto, Ontario
GEORGE B. McKEEN	President McKeen & Wilson Ltd. Vancouver, British Columbia
FREDERICK L. PATTERSON (2)	President and Chief Executive Officer Nestlé (Canada) Ltd. Toronto, Ontario
RENAULT ST-LAURENT, Q.C., LL.D.	Partner St-Laurent, Monast, Walters & Vallières Quebec City, Quebec
JOHN E. SHAFFNER (1)	Agent General for the Province of Nova Scotia in the United Kingdom Port Williams, Nova Scotia

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

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Vice President Administration	Camille A. Denis
Vice President Production	Daniel Di Ianni
Vice President, General Counsel and Secretary	C. Paul Young
Vice President, Marketing Administration and Trade Services	Robert T. Lloyd
Vice President Sales	Gordon R. White
Treasurer	Hugh R. Sampson, C.A.

ROTHMANS OF PALL MALL CANADA LIMITED

Annual Report
1975